

**Title: Revenue Budget, Capital Strategy and Council Tax 2025/26**

Committee: Finance and Assets Committee

Date: 30<sup>th</sup> January 2025

Author: Director, Finance

Report No: (Z122)

Contact Officer: Ian Smith, Director Finance [ian.smith@eastcambs.gov.uk](mailto:ian.smith@eastcambs.gov.uk)  
01353 616470, Room 104, The Grange, Ely

## **1.0 Issue**

1.1 This report sets out the Council's proposed revenue budget, capital strategy, and the required level of Council Tax in 2025/26. The report assesses the robustness of the budgets, the adequacy of reserves and updates the Council's Medium Term Financial Strategy (MTFS).

## **2.0 Recommendations**

2.1 Committee is asked to recommend to Full Council that it approve:

- i) The draft revenue budget for 2025/26 and MTFS for 2026/27 to 2028/29 as set out in Appendix 1
- ii) The Statement of Reserves as set out in Appendix 2
- iii) The Capital Strategy and financing as set out in Appendix 3
- iv) The 2025/26 Fees and Charges as set out in Appendix 4
- v) The application of the Retail, Hospitality and Leisure 40% Business Rate relief (which will be fully funded by the Government through Section 31) as detailed in sections 6.6 to 6.7 of this report and any other Business Rate reliefs that may be announced in the national budget (as detailed in section 6.8).
- vi) The changes to the Local Council Tax Reduction Scheme and premiums for Long-Term Empty and Second Homes as detailed in sections 11.8 and 11.9 of this report.

2.2 To authorise the Director, Finance, in consultation with the Chairman of Committee to adjust the use of the Surplus Savings Reserve in 2025/26 and future years (as available), to ensure that the net budget as detailed in 2.1 remains unchanged (in the event of any additional information becoming available, principally in relation to (but not exclusive too) the Final Local Government Settlement and / or the NNDR1 return). These adjustments to be made in advance of the report being presented to Full Council on the 25<sup>th</sup> February 2025.

## **3.0 Background / Options**

3.1 At the Full Council meeting on 20<sup>th</sup> February 2024, members approved a net budget for 2024/25 of £12,439,431 and a frozen Council Tax. The budget had a

planned draw of £1,567,387 from the Surplus Savings Reserve. The Medium Term Financial Strategy at that time showed a balanced budget in 2025/26 (using further resources from the Surplus Savings Reserve and an increase in Council Tax of £5), but with significant budget deficits in 2026/27 and 2027/28.

- 3.2 The outturn position for 2023/24 was reported to the Finance and Assets Committee on the 27<sup>th</sup> June 2024. This showed that due to the actions taken by management to reduce the Council's cost base prior to and during 2023/24 and the prudent forecast of Business Rates receipts, the Council underspent in 2023/24 by £2,596,480. This was transferred into the Surplus Savings Reserve.
- 3.3 Management has continued to look for opportunities to reduce the Council's cost base during the current financial year. This work has led to further one-off and ongoing savings being made, which both contribute to the projected outturn for this financial year and also provide savings throughout the term of the MTFs. The current year-end forecast for 2024/25, as presented to this meeting in a separate report, is an underspend of £602,030. This too will be transferred to the Surplus Savings Reserve at year-end and has been reflected in the figures in this report.

#### **4.0 Local Government Finance – Policy Statement**

- 4.1 The Local Government Finance Policy Statement was announced on the 28<sup>th</sup> November 2024. This was the third such Policy Statement, repeating a practice started in 2022, but the first from the new Labour Government.
- 4.2 Local Government has, for a number of years, been expecting a major change in the way it is funded by Government. This change includes two elements:
- Local Government Fair Funding Review, a review of the relative needs of all local authorities to determine how much of the funding allocated to local government by Government should be allocated to each individual authority.
  - At the same time as the Fair Funding Review, a Business Rates base line reset is expected. This would result in all the growth in Business Rates in the District since the last Review (2013) (which we retain 40% of) being put back into the overall pot to be allocated out as part of the Review. This is expected to result in this Council retaining significantly less in Business Rates, as we will lose the benefit of the growth which has taken place.
- 4.3 The Policy Statement makes it clear that Government intend to make the major funding reforms, as detailed in 4.2 above, as a multi-year Settlement in 2026/27. With 2025/26, to the most part, being a rollover settlement, although the Government has made a number of changes as below. It should be noted that the MTFs anticipates that the significant changes will happen in 2026/27.
- 4.4 The Rural Services Delivery grant, an allocation to the most rural authorities, in relation to which we received £219,465 in 2024/25, will be abolished in 2025/26 as will, the Services Grant, East Cambridgeshire's allocation in 2024/25 for this was £17,218.
- 4.5 Extended Producer Responsibility funding, this is where producers have to pay for the disposal of the packaging they create, will be passed onto local authorities from 2025/26 and funding will also be made available for the direct employee costs of the increase in employers National Insurance.

- 4.6 Two new grants were announced which impact on district councils, Recovery Grant, which will be highly targeted towards authorities with the highest levels of deprivation and grant to support councils worst impacted by increases in Internal Drainage Board levies. Regarding the later, we have benefited from this in the past two years, but it has been awarded after the Settlement and so not included in our approved budget.
- 4.7 The Policy Statement made provision for shire districts to increase Council Tax by 2.99% or £5, whichever is the greater, in 2025/26 without the need for a referendum.
- 4.8 The Business Rate multipliers have also been announced. The Non-Domestic Rating Act 2023 provided ministers with the power to set the small and standard business rate multipliers at different levels. Until 2023/24, these two multipliers had to be increased (or frozen) by the same percentage, but since the introduction of this new power in 2024/25 the rates have diverged. For 2025/26 the small business rate multiplier will be again frozen; it will remain at 49.9p. The standard multiplier (payable by businesses with premises valued at more than £51,000) will increase from 54.6p to 55.5p. Compensation in the form of the Section 31 grant, will be provided to councils for the frozen small business multiplier.
- 4.9 Not as part of the Policy Statement, but released at the same time, Government announced the allocations to councils for the Extended Producer Responsibility funding (as detailed in 4.5 above). This is new funding for all councils from 2025/26, with our allocation for the initial year being £1,185,000. [For budgeting purposes, a similar value has been used throughout the MTFS period, but the amount will be subject to an annual review by Government and as it is hoped that the measure will encourage a reduction in packaging, this may mean that payments in future years are reduced.]

## **5.0 Local Government Finance Provisional Settlement**

- 5.1 The Provisional Local Government Finance Settlement was announced on the 18<sup>th</sup> December 2024.
- 5.2 The Council's Revenue Support Grant was increased by inflation; in 2024/25 we received £108,851, this increasing to £125,690 for 2025/26.
- 5.3 The Provisional Settlement extended the New Homes Bonus grant for a further year, with amounts earned for year fifteen of the scheme, between October 2023 and October 2024, attracting one year's worth of reward in 2025/26, with no legacy payments in future years. This was the same approach as in both 2023/24 and 2024/25. Due to the high level of house building in the District in the past year, our New Homes Bonus grant for 2025/26 will be £828,863, which is a reduction on the £1,069,518 received in 2024/25. Government continues to undertake consultations on the future of New Homes Bonus, or a replacement to it, but it is now felt highly unlikely that it will continue into 2026/27.
- 5.4 The Provisional Settlement also continued Government's use of Grant to ensure that every authority's Core Spending Power does not reduce in 2025/26, this being based on the assumption that councils will make the local decision to increase Council Tax by the maximum allowed. The Grant, renamed the Funding

Floor Grant (it was the Funding Guarantee Grant in 2024/25) will be worth £405,396 to East Cambridgeshire in 2025/26, this is an increase on the £256,020 received in 2024/25. The increase is partly (but not entirely) a consequence of the reduction in New Homes Bonus Grant.

- 5.5 East Cambridgeshire received no Recovery Grant.
- 5.6 The Provisional Settlement did not detail the allocation of the £3 million of grant nationally to support councils worst impacted by increases in Internal Drainage Board Levies. The final allocation of this grant will be announced in the Final Settlement. In 2024/25 East Cambridgeshire benefited by £106,000, so it is anticipated that we will also benefit again in 2025/26, although this is not guaranteed. On this basis, a prudent, £40,000 is included in the Budget.
- 5.7 The Provisional Settlement further identified the local authorities who will have a Business Rates Pool during 2025/26, Cambridgeshire was amongst those councils (see paragraph 6.4).

## **6.0 Business Rates**

- 6.1 The NNDR 1 return for 2024/25 will be produced by the end of January in line with statutory requirements. Figures from this will be included in the budget presented to Full Council in February. However, for this report, estimated figures as provided by Pixel Financial Management have been used.
- 6.2 While the Council benefits significantly from the growth in Business Rates since the last Base reset in 2013, there is always the risk that appeals against Business Rates can be lodged and, if successful, can be backdated for several years. The Council does therefore include a provision for appeals in determining how much of the rates collected should be posted into the budget.
- 6.3 The MTFs assumed that the Collection Fund for Business Rates will be in balance as at 31<sup>st</sup> March 2025, however this will not be known until the NNDR1 is completed at the end of January. This figure will be included in the report to Full Council as in 6.1 above.
- 6.4 East Cambridgeshire applied to be, and was accepted by Government to be, part of the continuing Cambridgeshire Business Rate Pool in 2025/26, alongside a number of other authorities in Cambridgeshire.

- Cambridgeshire County Council
- Cambridgeshire Fire Authority
- Peterborough City Council
- South Cambridgeshire District Council

(Cambridge City Council, Fenland District Council and Huntingdonshire District Council continue to not be members of the Pool in 2025/26.)

A review of the scheme was undertaken in the Autumn of 2024, supported by Pixel Financial Management. The modelling showed that the current membership of the Pool would continue to provide the greatest benefit to the County area overall. As a consequence of this, it was decided to continue with the same Pool members in 2025/26 as had been the case in 2024/25.

- 6.5 As highlighted elsewhere in this report, forecasts for retained Business Rates beyond the Fair Funding Review, now assumed to be in 2026/27, are almost impossible to calculate at this time, but the figures presented take a prudent view, showing a significant reduction on those expected in 2025/26. These figures have been informed by our external adviser Pixel Financial Management.
- 6.6 In the Autumn Budget, on the 30<sup>th</sup> October 2024, the Chancellor announced that the Retail, Hospitality and Leisure (RHL) sector would benefit from a 40% Business Rate relief during 2025/26 (this is lower than the 75% relief being applied in 2024/25) and that the small business Business Rate multiplier will be frozen for that year.
- 6.7 While detailed in the Budget as a national scheme, the RHL relief requires individual councils to use their discretionary powers (Section 47 of the Local Government Act 1988, as amended) to grant these reliefs in line with the relevant eligibility criteria set out in the guidance. The full cost of granting these reliefs will be compensated to the Council through a Section 31 grant from Government.
- 6.8 With the National Budget expected to take place in March 2025, if any further discretionary reliefs to Business Rates are announced, Council is asked to give the Director, Finance approval to implement these, as long as they are fully funded by Government via the Section 31 Grant.

## **7.0 The 2025/26 Budget**

- 7.1 Due to the proactive actions taken by management to reduce costs and generate new sources of funding in recent years, the revenue budget for 2025/26 is fully funded.
- 7.2 The draft budget for 2025/26 is set out in Appendix 1 to this report.
- 7.3 The following key assumptions have been made in preparing the draft budget:
- The April 2025 inflationary pay increase for staff has been assumed at 2.8% with then in addition the additional employer National Insurance contributions built into the budget;
  - Service leads are provided budget to cover their full staff establishment – i.e. without a turnover allowance;
  - Where known, inflation on contracts has been included to reflect the expected increase in these during the year. These include insurance and IT licences;
  - Inflation has been added to the Waste contract for 2025/26, with additional budget being provided to allow all the Waste fleet to use HVO fuel, thus reducing carbon emissions. Funding is also provided for the capital costs of the new vehicles (purchased in 2024/25) which will start being charged to East Cambs Street Scene (ECSS) in 2025/26.
  - The budget also reflects a clearer client and contractor split within Waste, with the costs of the Mechanical Recycling Facility (MRF); income from Recycling Credits and the Extended Producer Responsibility Grant, as well as some staff costs, now being treated as client costs;
  - 9% inflation has been added to the Parks and Gardens contract with East Cambs Trading Company (ECTC);
  - Internal Drainage Board levies have been inflated by 6% based on information received from Middle Level Commissioners, this in advance of the individual

drainage boards setting their detailed budgets. Drainage levies have increased significantly above general inflation in recent years as a consequence of higher electricity costs and water volumes;

- Other expenditure budgets have been increased between 0% and 2% for inflation;
- Pension Fund revaluations take place every three years, with the most recent one being on 31<sup>st</sup> March 2022. The Council is therefore aware of its contribution into the Fund for the coming year, its primary rate will be 17.4% (this has been a consistent percentage since April 2023), with in addition, the Council's lump sum contribution being £437,000 in 2025/26 (a reduction of £28,000 compared to 2024/25). In line with the three year review, a further valuation will take place on 31<sup>st</sup> March 2025; it is hoped that with the Fund currently in surplus, this will allow for a reduction in contribution from April 2026;
- The Housing Benefit budget reflects the mid-year position for 2024/25: the latest information received from Anglia Revenues Partnership (ARP);
- No adjustments to spend have been made to reflect the anticipated increase in population within the District;
- Budgeted income from the commuter car park and the Leisure Centre management fee both remain reduced when compared to the value in the 2020/21 budget to reflect the on-going implications of the Covid-19 pandemic (including more people still working from home) and subsequent "cost of living crisis" on these services;
- Funding is included in the budget to prepare a new Local Plan during the MTFS period, including £300,000 in 2025/26 and 2026/27;
- A further £35,000 has been included in the 2025/26 budget (only) for the development of a new website, this follows an allocation of £125,000 in 2024/25.

## **8.0 Reserves**

8.1 The Council holds reserves, at levels which remain prudent. It is important to review the level of reserves on a regular basis, in particular to ensure that potential liabilities not in the Council's base budget can be funded from earmarked reserves; and that unearmarked reserves are at a sufficient level to cover any unforeseen events.

8.2 As part of the process of preparing this budget, officers have reviewed each reserve to ensure its purpose and level is appropriate. A Statement of Reserves is attached at Appendix 2.

8.3 The sole unearmarked reserve is the General Fund. This currently stands at £1,385,852. There is no statutory minimum level set for local authority reserves; it is a matter for each local authority's own judgement after taking into consideration the strategic, operational and financial risks it faces. It has been this Council's policy for some time that the level of the unearmarked reserve be set at 10% of the net operating budget (before any movement to the reserve). This is a reasonably prudent approach and a higher percentage than many other authorities locally. The proposed net operating budget for 2025/26 is £14,551,280. Using the 10% figure, this requires an unearmarked reserve of £1,455,128 an increase of £69,276.

## **9.0 Fees and Charges**

- 9.1 Officers have reviewed the fees and charges, and details of the proposed charges for 2025/26 are shown at Appendix 4. The proposed budgets have been adjusted to reflect the change in price and volumes expected in 2025/26.
- 9.2 There is one new charge being introduced in 2025/26, that being the introduction of a £70 civil fine to those residents that disclose incorrect information regarding their circumstances around Council Tax discounts, this was approved by Finance and Assets Committee at its meeting on the 26<sup>th</sup> September 2024.
- 9.3 Where we have control over the fee level, as opposed to where these are negotiated nationally, and where the fee relates to work undertaken by officers, it is proposed to increase fees and charges by approximately 4.8%. This reflects the forecast 2.8% inflationary increase in pay on the 1<sup>st</sup> April 2025 plus the addition employer National Insurance contribution calculated at 2%. This approach ensures that the additional cost of providing the service is met by the person / organisation benefiting from the service, rather than the general populous through Council Tax.
- 9.4 As external funding from Government grants continues to reduce, the Council's approach to fees and charges will need to reflect the increasing importance of this as a funding source.

## **10.0 Capital Strategy**

- 10.1 The CIPFA revised 2017 Prudential and Treasury Management Codes required, from 2019/20, all local authorities to prepare a capital strategy report, which provides:
- a high level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - an overview of how the associated risk is managed;
  - the implications for future financial sustainability.
- 10.2 This Council has one major capital project planned at this time, with the remainder of the programme, to the most part, being a continuation of the previous programme. The medium term Capital Programme is attached at Appendix 3; the total value of the programme in 2025/26 is £12,216,778.
- 10.3 The Council's Treasury Management Strategy is a separate document, which is also on today's Finance and Assets Committee agenda with the recommendation to ask Full Council to approve.
- 10.4 The major capital project in the Capital Programme is to build a District Bereavement Centre, consisting of a crematorium and modular function room, with associated natural burial and pet cemetery facilities at the Council owned Mepal site on Ireton's Way. The scheme is currently in the budget at £9,060,223 while we await the results of a formal tendering exercise, and will be funded by CIL contributions, with the build stage starting in 2025/26 and continuing into 2026/27.
- 10.5 With the Council's Waste Service being provided by ECSS, the Council is purchasing waste fleet and hiring this to the Company. The hire charge reflects

the Council's capital costs of doing this, both the MRP and interest costs. Spend in 2024/25 is forecast to be £827,530 as vehicles previously purchased by the use of the Weekly Collection Grant from Government, have now reached and indeed surpassed their useful, economic life and require replacing.

- 10.6 With the Government's Waste Strategy needing to be implemented in 2026, it is necessary to purchase vehicles and equipment during 2025/26 to ensure that these are available at the point where the change in requirements begins. To this end, a capital budget of £280,256 is provided to purchase kitchen caddies and kerbside caddies for kitchen waste, the funding for which has already been received from Government.
- 10.7 Council at its meeting on the 17<sup>th</sup> October 2024, decided to move to a three bin solution at the same time as implementing kitchen waste collections. A capital provision of £1 million has been in the budget for some time for the purchase of additional bins and this will now be spent in 2025/26 to purchase the additional wheeled bins required. This is funded from internal borrowing.
- 10.8 The combination of additional vehicles to collect the new kitchen waste stream and new replacement vehicles with lifts, to collect the waste associated with the additional wheeled bin, has required a capital vehicles budget of £1.964 million in 2025/26. £613,800 of this will be funded by Government grant, associated with the new burden of food waste, with the remainder being funded by internal borrowing.
- 10.9 Where the additional cost of vehicles purchased in 2024/25, 2025/26 and future years impact the charge to ECSS, the Council has increased the management fee it pays ECSS for providing the service as detailed in paragraph 7.3 to ensure that it can meet these additional costs.
- 10.10 Council at its meeting on the 21<sup>st</sup> April 2022, approved a further loan facility to ECTC of £7.5 million. Much of this has been provided in the current year and previous years, with the current profile assuming that £1,500,000 will be provided in 2025/26. This funding is to ensure that ECTC has the finance available to progress two building development schemes, these being phase two and three at the former MoD site in North Ely and to carry the capital costs of buildings on the Eden Square development while these wait to be sold. The Council has security in place with regard to this loan in the form of a debenture which provides it with first ranking security over all unsecured assets of the Company.
- 10.11 There are a number of capital budgets that continue into 2025/26, having been in place in previous years, where there is a commitment to continue spending in each year of the capital programme:
  - The purchase of new wheeled bins. As further residential properties are built within the District, these need to be supplied with bins, so the Council needs to have these available. The cost of these, estimated at £40,000 per annum, will be covered by a combination of Section 106 funding from developers and capital receipts.
  - Disabled Facilities, both mandatory and discretionary. The Council receives Government funding (from the Better Care Fund), via the County Council to assist with the funding of this work. The total budget in 2025/26 is £772,299.



- Vehicle replacement funding for the Parks and Gardens team. These vehicles are purchased by the Council using Section 106 funding, and then hired to ECTC at a rate to cover the notional MRP and interest costs using the same approach as with Waste vehicles.
- 10.12 As agreed in the 2017/18 budget, the Council now funds expenditure that would have previously been funded from external borrowing, on schemes such as the Leisure Centre, Waste fleet and bins and the loan to the ECTC, from internal borrowing. As interest chargeable on external borrowing is higher than interest receipts on investments, this provides a net saving to the Council. The expectation is that all borrowing in 2025/26 will be funded from internal borrowing, thus preventing any external borrowing costs. More details of the Council's borrowing requirement and investment strategy are detailed in the Treasury Management Strategy (also on the agenda for this meeting).
- 10.13 In summary therefore, the Council has limited exposure to the ongoing costs of capital expenditure at this time. The MRP costs of the Leisure Centre are being met by the operator through the management fee; the loan to ECTC is due to be repaid in full by March 2027 and in the intervening period a commercial interest rate is being charged, and the costs of the Waste fleet will be passed onto ECSS, although the Council's management fee payable to ECSS has been increased in 2025/26 and 2026/27 to reflect the additional MRP payments the Company will be paying on the replacement vehicles.

## **11.0 Council Tax**

- 11.1 The MTFS assumed that the Collection Fund for Council Tax would be in balance as at 31<sup>st</sup> March 2025. However, due to the increased number of houses built in the District during 2024/25 and the fact that Council Tax receipts have not been impacted by the cost of living crisis as much as expected, the Fund is now forecast to be in surplus at the end of this financial year. The net position being that the Council will benefit by £12,452 from the Collection Fund surplus in 2025/26.
- 11.2 The taxbase for 2025/26 estimated in last year's budget was an equivalent of 33,651.7 Band D properties. However, the current forecast, including the real change in housing numbers between October 2023 and October 2024, an estimation of future movements in 2025/26 and a small top-slice for non-payment, means that the new forecast for 2025/26 is 33,081.4 equivalent Band D properties.
- 11.3 As detailed earlier in this report, the Local Government Policy Statement detailed that district councils can increase Council Tax by 2.99% or £5 without the need for a referendum. A 1% increase in Council Tax for this Council would generate an additional £47,022, whereas a £1 increase would generate a further £33,081. For this Council therefore the £5 figure would be the highest, generating additional income of £165,407 in the year.
- 11.4 This budget is drafted on the assumption that the Council will apply the maximum increase available, therefore increasing Council Tax to £147.14 in 2025/26.
- 11.5 The County Council, Fire Authority, Police Authority and Cambridgeshire and Peterborough Combined Authority budgets and precepts will be considered by

their respective decision making bodies in early February and we are expecting to be notified of their precept requirement prior to Full Council approving the budget at its February meeting.

- 11.6 It should be noted that the County Council's precept comes in two parts, a general precept and an adult social care precept, this following the Secretary of State's offer to all adult social care authorities (those with functions under Part 1 of the Care Act 2014). The offer was the option of an adult social care authority being able to charge an additional "precept" on its council tax without holding a referendum, to assist the authority in meeting its expenditure on adult social care. This arrangement has been in place since 2016/17.
- 11.7 Where parish precepts have been notified to the Council, these are shown in Appendix 5. Again, it is expected that these will all be available prior to this report going to Full Council on the 25<sup>th</sup> February 2025.
- 11.8 Finance and Assets Committee at its meeting on the 28<sup>th</sup> November 2024 agreed to make one change to the Local Council Tax Reduction Scheme (LCTRS), that being, that DWP passported benefit status for LCTRS assessments will be disregarded where the Council is satisfied that the assessment is incorrect based on information obtained by the Council's Fraud Investigation Team.
- 11.9 At the same meeting, it was agreed to apply a premium of 100% to Second Homes from the 1<sup>st</sup> April 2026 and allow Long-Term Empty premiums to be applied after one year as opposed to two, this coming into effect on the 1<sup>st</sup> April 2025. There were some exemptions from these additional premiums which were detailed in the paper presented to Finance and Assets Committee. Both these decisions need formal approval from Full Council.

## 12.0 Risk and Sensitivity Analysis

- 12.1 The Local Government Act 2003 places two specific requirements on an authority's Section 151 Officer in determining the Council's budget and Council Tax. Under Section 25, the Section 151 Officer must advise on the **robustness of the estimates** included in the budget. The advice given to the Council on this issue is that the estimates have been produced on a prudent basis, with a strong emphasis on ensuring all cost pressures are included. Budget estimates have been developed with senior officers, with regular updates and discussions with members of Management Team.
- 12.2 The key risk is around Government funding of the Council. The Settlement provides clarity around grant funding for 2025/26, but looking beyond that, there is very limited information to put forward a MTF5 based on confident assumptions on future Government funding.
- 12.3 Possibly the greatest concern for this Council, is the Government's intention to implement a full Business Rate baseline reset at the time of the Fair Funding Review. The current baseline was set in 2013, when all councils were given a share of Business Rates equal to their calculated needs. Since then councils have been allowed to keep a share of their growth, which for us as a district council has been 40%. In broad figures our baseline is £2.69 million, where we actually budget for £5.76 million of Business Rates because of this growth. If the baseline is fully reset, we will lose this growth and won't know what our revised

baseline will be until the results of the Local Government Fair Funding Review (as detailed in 4.2) are announced. An allowance has been made in the MTFS for this probable reduction, but at this point, there is no certainty on what this is likely to be.

- 12.4 Unlike the position for the past two years, inflation and the consequential higher pay rises are anticipated to be less of an issue in 2025/26. Section 7.3 of this report details the inflation built into the 2025/26 budget, but in addition to this a £100,000 provision of additional unknown inflation has been built into the budget. To put some context to this figure, we have budgeted for a 2.8% increase in staff pay from the 1<sup>st</sup> April 2025, if pay was to increase by 3.8% (1% higher) this would cost the Council a further £104,000.
- 12.5 To mitigate the above risks, the Section 151 Officer will continue to report on a regular basis to Management Team and Members as new information becomes available.
- 12.6 The Section 151 Officer is also required to report on the **adequacy of reserves**. The projected level of reserves, specifically the General Fund Reserve and Surplus Savings Reserve, and their use in 2025/26 are **prudent** and show how these will sustain the functions of the Council in that year.
- 12.7 However, the MTFS assumes the Surplus Savings Reserve is utilised during 2025/26 and 2026/27, with only a small amount being carried into 2027/28. This will reduce the overall level of reserves significantly. Reserves can only be utilised once and while the purpose of the Surplus Savings Reserve is to provide one-off funding to balance the budget in future years, the Council needs to consider all options to reduce the speed that this is being utilised so that it remains available as far as possible into the future. The Council has a track record of delivering additional savings and generating extra income in advance of the budget requirement, so work done during 2024/25 and 2025/26 financial years will hopefully lead to a reduced draw from the Surplus Savings Reserve in these and future years through the MTFS period.
- 12.8 Another key risk for the Council is its loan to ECTC. Should ECTC encounter any financial difficulties and be unable to repay the £7,500,000 loan facility, then the Council will need to account for this within its financial statements. In such an event, the Council would need to draw on its reserves to meet such a liability. At this point, it should be noted there is no indication that this is likely to be the case and indeed not all of the loan facility has, as yet, been drawn down. To limit this risk further and as detailed in 10.10 above, the Council has security in place with regard to this loan in the form of a debenture which provides it with first ranking security over all unsecured assets of the Company.

### **13.0 Medium Term Financial Strategy**

- 13.1 The Council's Medium Term Financial Strategy is to set a robust financial framework for the Council's plans over the next four years which support the delivery of the Council's priorities within a context of an annual balanced budget. Specifically, the MTFS:
  - Looks to the longer term to help plan sustainable services within an uncertain external economic and funding environment;

- Maximises the Council's financial resilience to manage risk and volatility, including managing adequate reserves;
  - Helps ensure that the Council's financial resources are directed to support delivery of the Council's priorities over the medium term.
- 13.2 The MTFFS covers the period 2025/26 to 2028/29. As highlighted earlier in the report, the Policy Statement and Local Government Finance Settlement announced by Government for 2025/26 provide assurance about the grant position for the budget year.
- 13.3 However, it is extremely difficult to develop a robust MTFFS to cover the period 2026/27 and beyond while the uncertainties around future funding levels from Government remain. As detailed earlier in this report, the Government is currently considering options around its overall budget for the period of this parliament and more specifically the Local Government Fair Funding Review to determine how much of the overall funding pot is allocated to individual authorities. This issue creates considerable uncertainty for local authority funding and is an issue which will require monitoring in the coming months, to ensure the Council can adjust its MTFFS as new information becomes available. Updates will be provided to the Finance and Assets Committee as and when further information becomes available.
- 13.4 The assumptions used in the MTFFS include:
- Government funding through New Homes Bonus and Funding Floor Grant will both end in 2025/26 with the Fair Funding Review being implemented in 2026/27;
  - Inflation on staff pay is included at 2.8% in 2025/26 and then 2% in all future years;
  - The loan to ECTC is planned to be repaid by March 2027, the interest received by the Council on this loan will therefore stop at this point. The loan repayments will be used to reduce / prevent the Council needing to borrow externally and/or to invest in line with the Treasury Management Strategy;
  - As discussed earlier in this report one of the requirements of the Government's new Waste Strategy is the need for food waste to be collected weekly from all homes from 2026. The revenue cost of this has been budgeted for in 2026/27 and future years. At this stage it is unclear if any further Government funding will be made available to support these additional costs, or whether the new Extended Producer Responsibility funding introduced in 2025/26 should be used. No additional funding is therefore included in the MTFFS for this, but updates will be provided as the position becomes clearer;
  - On interest receipts, it is assumed that interest rates will remain at around 4.25% in 2025/26, but then reducing during the MTFFS period to 3% by 2028/29;
  - There remains no assumption in the MTFFS for any dividends being received from ECTC. (While noting that no dividends are budgeted for, it should not be forgotten that the Council continues to get a benefit from ECTC, with interest being paid on the loan provided, the recharge of management and support services costs to the Company (forecast to be £163,489 in 2025/26), the hire of the Market Place and part of the depot (the remainder is charged to ECSS),

as well as Capital Receipts, Section 106 contributions and additional Council Tax receipts from the properties developed.);

- The budget and MTFs include the impacts of the construction or running costs of the proposed new Crematorium at Mepal;
- The Council has a track record of delivering cost reductions; it is anticipated therefore that a contribution to the budget deficit forecast in future years will be achieved during the term through general efficiencies and income generating opportunities. However, to be prudent, no account of these is shown within the forecasts in this report.

13.5 The impact of the above assumptions is attached at Appendix 1. This shows the budgets for 2025/26 and 2026/27 are fully funded. However, there are significant budget shortfalls projected in 2027/28 and subsequent years. Clearly many things will change between now and then, so Members should not focus on the precise numbers. It is far more important that Members appreciate the direction of funding facing this and many local authorities, and the likely scale. It will be necessary to develop a plan to meet these shortfalls, although the Council does have time (although limited) to put the necessary plans in place. The Council also has access to a reasonable level of reserves, as described in Section 8 of this report.

13.6 While noting the uncertainty that is highlighted in this report about the 2026/27 financial year, it is considered unlikely that the quantum of funding from Government will increase and as such, this Council will need to identify measures to bridge the budget gap. A comparison between this year's MTFs and the past two last years does highlight an increased savings need particularly in years three and four.

<b>2023/24 Budget</b>	
2023/24 – budget year	Balanced
2024/25 – MTFs year 1	Balanced
2025/26 – MTFs year 2	Savings to find £1,645,402
2026/27 – MTFs year 3	Savings to find £4,797,033
<b>2024/25 Budget</b>	
2024/25 – budget year	Balanced
2025/26 – MTFs year 1	Balanced
2026/27 – MTFs year 2	Savings to find £3,196,858
2027/28 – MTFs year 3	Savings to find £5,586,743
<b>2025/26 Budget</b>	
2025/26 – budget year	Balanced
2026/27 – MTFs year 1	Balanced
2027/28 – MTFs year 2	Savings to find £5,314,076
2028/29 – MTFs year 3	Savings to find £5,341,711

13.7 Options to resolve the budget shortfalls in future years include:

- Efficiencies in the cost of service delivery
- Reductions in service levels
- Increased income from fees and charges
- Increased commercialisation via the trading companies

- 13.8 While noting the Council’s favourable position of having a balanced budget (by use of the Surplus Savings Reserve) for 2025/26 and 2026/27, it is strongly recommended that early consideration is given to how savings in future years will be achieved. All the bullets above need to be considered, with a quickening of the pace with a review of all income generating opportunities, as these are potentially the areas that could generate the highest returns, while having least impact on the services provided by the Council. However, within the MTFS period, all options will need to be considered and potentially implemented.
- 13.9 Any savings achieved in 2024/25 and 2025/26 resulting in potential underspends in those years, will allow further funding to be moved into the Surplus Savings Reserve and therefore available to assist in the balancing of the budget in future years.

## 14.0 Conclusions

- 14.1 The proactive actions already taken have led to balanced budgets for 2025/26 and 2026/27 (based on known information and the use of the Surplus Savings Reserve). The budget for 2025/26 therefore has minimal risk attached to it, although the Medium Term Financial Strategy, especially when the new funding regime comes in, in 2026/27, does contain significant uncertainty and therefore risk. While there is little this Council can do to remove the uncertainty at this point, it does need to look now for opportunities within its own control, which will bridge some part of the funding gap currently being forecast.

## 15.0 Additional Implications Assessment

- 15.1 In the table below, please put Yes or No in each box:

<b>Financial Implications Yes</b>	<b>Legal Implications No</b>	<b>Human Resources (HR) Implications No</b>
<b>Equality Impact Assessment (EIA) No</b>	<b>Carbon Impact Assessment (CIA) No</b>	<b>Data Protection Impact Assessment (DPIA) No</b>

- 15.2 Financial Implications

The proposed net operating budget of £14,551,280 will be financed by Revenue Support Grant, retained Business Rates, Council Tax and a contribution from the Surplus Savings Reserve.

## 16.0 Appendices

- Appendix 1 - Draft Budget 2025/26 and MTFS
- Appendix 2 – Draft Statement of Reserves
- Appendix 3 – Draft Capital Programme
- Appendix 4 – Draft Schedule of Fees and Charges
- Appendix 5 – Parish Precepts

## **17.0 Background Documents**

2024/25 Budget to Full Council – 20<sup>th</sup> February 2024

Yearend Finance report for 2023/24 to Finance and Assets Committee – 27<sup>th</sup> June 2024

MTFS up-date report to Finance and Assets Committee – 26<sup>th</sup> September 2024

Local Council Tax Reduction Scheme (LCTRS) update for 2025/26 and change to Council Tax on Long-Term Empty and Second Homes report to Finance and Assets Committee – 28<sup>th</sup> November 2024